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**Risk Appetite**

Discussion Paper

**Governance Code for Sport**

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Introduction

Principle 2 within the Governance Code for Sport focusses on how those charged with governance exercise control over their organisation. In term of control, the sub-principles address the identification and compliance with all relevant legal and regulatory requirements, making sure there are appropriate controls in place as well as identifying risks and considering how they can be managed and addressed. As the essence of risk is uncertainty, both positive as well as negative effects, there needs to be a process which allows for a sharing of knowledge and insight on the uncertainties the organisation faces that will allow for decisions or actions to mitigate and manage the threats, exposures and vulnerabilities (potential negatives effects) but also exploit and pursue the opportunities ( potential positive effects). All organisations, boards and management, have implicitly managed risk for a long time but the requirement and obligation now is to make the assessment and management of risk an explicit and deliberative process and one which can inform and support good decision-making at all levels.

An inclusive dialogue to agree a risk register which articulates the threats and vulnerabilities, the mitigations where these are possible and the ownership or accountability for these, is an important process for the board and management. In terms of potential positive effects or upsides which uncertainty or challenges may throw up, the risk register might also include an articulation of opportunities and what can or should be considered and actioned to exploit the opportunity that presents or indeed maybe the decision is to defer or ignore the opportunity at this point in time.

The discussion of threats, vulnerabilities and exposures as well as opportunities serves to inform some ideas and perspectives on the risk appetite of an organisation. For larger bodies, there is an expectation in the governance code for sport that the board will set the risk appetite for the organisation and this will, most likely, involve discussions and input from the chief executive, managers and staff.

The purpose of this discussion paper is to share ideas on risk appetite discussions and to provide some illustrative narrative on how risk appetite might be explained in a risk appetite statement. As the operating environment and the individual circumstances within which organisation’s operate are specific and unique, this paper may help provoke reflections on how to make this approach relevant to your situation.

Risk Management

An effective risk management system is recognised as a pillar of good governance and serves to assist organisations to address the uncertainties it faces and to allow for reasoned and reasonable risk-taking. The risk management policy should be a comprehensive document and describes the risk management framework and process in operation within the organisation. The framework and process are designed to support the ongoing monitoring, review and management of risks and is developed with reference to governance codes and other published guidance for risk management.

Risk is defined as the effect of uncertainty on objectives ( positive and negative), and hence in looking at risk ( threats and opportunities), it is always useful to consider what objectives we are trying to achieve, what priorities we are pursuing or what functions we are carrying out and to risk assess these objectives, priorities or functions.

Risk Appetite

Risk appetite is an increasingly important topic and can be defined as “*the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time*”. There are areas where organisations have a low appetite, possibly zero tolerance, and areas that to deliver on a function or an objective, they may, of necessity, have to engage in reasoned and reasonable risk taking and have a moderate to high appetite.

The expectation within the governance code for sport is that the board/governing body will approve the risk appetite statement as well as monitoring the effectiveness of the risk management system and boards, governing bodies and governance and leadership teams are supported in this task by an audit and risk committee. When looking at the concept of risk appetite and particularly, when the context within which the organisation may operate includes using significant public funds and subscriptions, many boards and managers are somewhat reticent to state, publicly at least, that they have a risk appetite when it comes to how their organisation delivers its mandate and fulfils its purpose using these funds. This unwillingness is borne out of a concern that the audit, oversight, and accountability regimes which apply would be heavily critical and publicly castigate them where there was a perception or sense of improper use of public monies on projects, programmes or initiatives; whatever about the reality!

The factual position is that those charged with governance and leadership and senior managers within sporting organisations are engaged in reasoned and reasonable risk taking, not reckless behaviour or abandoning or ignoring the norms and standards that apply to the use of public funds, but make sound judgements based on insight, knowledge, research and expertise and the use of agreed and professional decision criteria to inform decisions and actions. This is further supported by an effective implementation, monitoring and oversight of decisions and embedded risk management systems to ensure uncertainties can be addressed and opportunities exploited.

New ideas, new projects, new initiatives require innovation, creativity and new ways of operating. It requires pursuing and exploiting the opportunities that exist, which is at the core of why an explicit risk appetite is important. It is arguably more than tolerating risk or setting tolerance levels for threats or exposures; it is about exploiting the opportunities. Even those entities who would appear to have a close to zero risk appetite and intensely cautious and highly prudent, to survive and deliver in these times of such uncertainty and upheaval, need to have a risk appetite to innovate and develop or otherwise they may not survive. That said, it still requires organisations, boards and management, to remain vigilant and scan the horizon in order to ascertain and evaluate as much as possible the challenges and uncertainties that exist.

Ideas for narrative in the risk appetite statement

We have noted earlier that risk is the effect of uncertainty on objectives and the effects can be both positive and negative. To pursue and deliver on strategic outcomes necessarily requires reasoned and reasonable risk taking. It is acknowledged that the appetite for risk varies according to the activity undertaken, and that in accepting risk or pursuing opportunities organisations must ensure that potential benefits and upsides as well as the risks and downsides are understood and that sensible measures and actions are adopted and implemented.

The risk appetite statement, approved by a board, specifies the amount of risk we are willing to pursue, seek, accept or tolerate in the pursuit of our mission and priorities.

In terms of specifying the appetite in words or as a visual representation, there are a number of options. One possible option would be the use of words such as very low, low, medium, high or a spectrum of words from very low, low, cautious, open, eager, ambitious or hungry.

The following might be useful to consider in terms of the range of risk appetite;

*Within our risk appetite statement, the board uses the following classifications for the risk appetite of the organisation, bearing in mind that the position as stated in set in the context of the delivery of the priorities, aims, objectives or functions of the organisation.*

* *‘very low appetite’ indicates the aspects of the activities where we have a close to zero tolerance or very low tolerance to accept risk in any form.*
* *‘low appetite’ indicates the aspects of our activities where we accept as little risk as possible and where we take a deliberately cautious approach towards taking risk.*
* *‘medium appetite’ indicates the areas and activities where we are prepared to take a reasoned, reasonable and well informed approach to risk and pursue opportunities.*
* *‘high appetite’ indicates the areas and activities, where to deliver our priorities, we are prepared to adopt a more eager and ambitious approach to risk and actively pursue and exploit the opportunities that present themselves.*

In contrast to the above classification, an alternative approach would be to present the risk appetite on a scale from 1 – 10, where 1 is suggestive of a zero tolerance and no appetite for risk, up to 10 which signifies an ambitious appetite to pursue and exploit the opportunities which potentially exist. It is important to remember that the decision on the levels and classifications of risk appetite is informed by sound judgements and analysis and reflects the context within which the organisation operates. If, for example you are being funded for a new, novel and innovative programme to increase participation in your sport or to enhance the facilities or the embrace new operating models, this will require, arguably, an appetite and willingness to seek out and exploit new ways and opportunities and agree a programme of work that deliberately pushes the boundaries.

The following sections of this paper illustrates the risk appetite using the scale from 1 – 10 and as well as the table, as a visual, there is some additional narrative to provide further explanation.

In acknowledging the nature and diversity of functions and activities in different organisational settings, this following illustrative table outlines diagrammatically the appetite for risk across some key activities and risk categories that you might see included in a corporate risk register

Unacceptable to Willing to pursue

Take risk opportunity

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |  |
| **Goal, Activity or Function** |  |  |  |  |  |  |  |  |  |  |  |
| **1 Participation and growth** |  |  |  |  |  |  |  |  |  |  |  |
| **2 Stakeholder engagement, consultation, collaboration** |  |  |  |  |  |  |  |  |  |  |  |
| **3 Compliance ( Legal, regulatory and governance)** |  |  |  |  |  |  |  |  |  |  |  |
| **4 New Technology / digital approaches** |  |  |  |  |  |  |  |  |  |  |  |
| **5 Cyber and information security** |  |  |  |  |  |  |  |  |  |  |  |
| **6 Financial ( performance & stewardship)** |  |  |  |  |  |  |  |  |  |  |  |
| **7 Reputation and image** |  |  |  |  |  |  |  |  |  |  |  |
| **8 Staff / Talent Management** |  |  |  |  |  |  |  |  |  |  |  |

Participation and growth

To achieve our ambition of attracting new people to our sport and achieving greater levels of participation, we need to take deliberate action and engage in new ways to better communicate what our sport has to offer. In terms of decisions and actions, we need to be innovative and creative and we need to exploit the opportunities and take reasoned and reasonable risk and agree, resource and monitor new initiatives in the short to medium term.

Stakeholder engagement, consultation and collaboration

Our stakeholders are wide and varied and include individuals, individual units and representative organisations as well as a range of other public and state agencies with whom we collaborate. These relationships are fundamental to the delivery of our mandate and we are open and willing to examine and adopt new approaches to derive best benefit from these relationships. In response to evolving demands and the necessity for innovative responses we are and need to be open to pursue opportunities for collaborating with existing and new partners through joint ventures, strategic alliances and fostering enduring relationships.

Compliance ( legal, regulatory and governance)

Weplace great importance on compliance, and have zero appetite for significant breaches in statutory obligations, governance and regulation, professional standards and ethics. The body is subject to the governance code for sport and we also have additional statutory and regulatory obligations and this places a strong onus on compliance with the hard law and soft law obligations. We continue to evolve our compliance framework and this in an area which is afforded ongoing board and management attention.

New Technology / digitial approaches

We continue to scan for and invest in new and refined digital and technology platforms as part of enhancing our services. Investment in new systems is ongoing and planned programmes are being undertaken on a phased basis. We work with peer bodies to maximise the benefits of build to share platforms and consistently look to derive best benefit from new technology and digital approaches

Cyber and information security

The organisation’s appetite in relation to cyber and information security is under regular scrutiny. The sensitivity and confidentiality obligations in addition to more general legal obligations on the use of data and GDPR is the key driver for us and one where we would have a very low appetite or low tolerance for breaches or exposures.

Financial ( performance and stewardship)

Ensuring that the organisation can deliver its mandate in an effective and financially sustainable manner remains a high priority. Annual and multi-annual budgetary approaches, cost control including monitoring and review of financial and non-financial performance are ongoing board and management agenda items. The financial governance and financial management arrangements ensure that the internal control systems are complied with and that the organisation meets it audit and accountability obligations. We have a low risk appetite in this area.

Reputation and Image

The maintenance and preservation of our reputation, profile and good name is vitally important. Therefore, while acknowledging the necessity to look at how we engage with individuals, key stakeholders and the wider sector, we have a low appetite for risk in the conduct of any of our activities that tarnishes our image or puts our reputation in jeopardy or could lead to undue adverse publicity, or could lead to loss of confidence in the organisation.

Staff / Talent Management

Our people and talent management policies focusses on ensuring high quality recruitment, retention and development practices. Within a progressive organisational environment, our priority is to support and utilise the full potential of our staff to make the organisation a stimulating and safe place to work. We place importance on an organisational culture that promotes equality and diversity, dignity and respect and high performance. We have a low appetite for deviation from our standards and we are open to avail of opportunities to provide good developmental opportunities and career paths.

Conclusion

As part of the risk appetite dialogue, it should be possible to assert that, as part of good governance, individual organisations implement a strong governance framework, policies, procedures and systems which when coupled with the culture and leadership philosophy seeks to (a) promote the pursuit of opportunities and innovations to the fulfilment of mission, goals and priorities and (b) reduce the likelihood and impact of threats or vulnerabilities to the fulfilment of these goals and priorities.

As governance in a means to an end, and not the end in itself, good governance is about delivering on, hopefully, ambitious plans and strategic outcomes in an uncertain environment. This necessarily requires reasoned and reasonable risk taking using sound and well informed judgement and a willingness to pursue opportunities.

This illustrative risk appetite statement clearly demonstrates how the appetite for risk varies according to the activity undertaken and even in the perceived most cautious and prudent organisations, innovation and change will occur and ambitious plans will require those in governance and leadership roles to deliberate on and agree a realistic risk appetite statement for the organisation.

The risk appetite statement is a statement of intent and a barometer of the organisations culture.